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October 30, 2019

VIA E-FILING

Jocelyn Boyd, Esquire
Chief Clerk and Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29210

RE: Procedure to address Treatment of Deferrals (See Page Number 5 of Order
No. 2019-341)
Docket No. 2019-233-A

Dear Ms. Boyd:

I have enclosed for filing Comments on behalf of the South Carolina Energy Users Committee ("SCEUC") in the above-captioned matter. By copy of this letter, I am serving all parties of record.

If you have questions, please do not hesitate to contact me.

Sincerely,

ELLIOTT & ELLIOTT, P.A.



Scott Elliott

SE/lbk
Enclosures

cc: All parties of record (w/encl. Via Electronic Mail)

**PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2019-233-A

IN THE MATTER OF:

Procedure to address Treatment of Deferrals (See Page Number 5 of Order No. 2019-341))))	COMMENTS OF THE SOUTH CAROLINA ENERGY USERS COMMITTEE
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Pursuant to Order No. 2019-114-H from the Public Service Commission, the South Carolina Energy Users Committee (SCEUC or Committee) herein submits the following comments in reply to those of the Office of Regulatory Staff (“ORS”) on the creation and treatment of deferrals.

I. INTRODUCTION

SCEUC is an association of large manufacturers that take utility service from one or more of the state’s investor-owned utilities (IOUs or utilities): Duke Energy Carolinas; Duke Energy Progress; Dominion Energy South Carolina; and/or Piedmont Natural Gas. SCEUC’s member companies employ thousands and have a considerable economic impact on the economy of South Carolina. Without reasonable constraints, the use of deferrals imposes unnecessary costs on SCEUC’s member companies and all ratepayers.

Reasonable regulation of deferrals would include the following concepts at a minimum:

- Limiting a return of operating expenses to only those items that are very costly and unexpected, such as such as storms;
- Limiting deferrals to capital expenses such that utilities receive only a return on those large capital items;
- Deferred assets should not have an undefined life but, instead, should be eliminated if not claimed by the utility in a general rate case within a set amount of time;

- The establishment of a regulatory asset only after a complete rate impact analysis to consumers as well as a cost/benefit analysis supporting the application.

After a thorough analysis of the regulatory concepts concerning deferrals, the ORS makes two recommendations. The ORS recommends that deferral accounting be limited to situations where the utility demonstrates in a clear and convincing manner that, 1) the costs in question are unusual or extraordinary and 2) absent deferral, the costs would have a material impact on the utility's financial condition. The ORS recognizes correctly that deferrals should be used sparingly and as an exception to S.C. Code Reg. Section 103-823(A)(3).

II. COMMENTS

A. Operating Expense Deferrals Should Be Limited

Utility rates are set under the assumption that regulators take a snapshot of a utility's expenses during a set period of time, typically referred to as a test year. As with every financial year, a certain level of expenses come and go. If a large expense is incurred by a utility in one financial year, another large expense may have left the utility's income statement in the previous year, explaining why operating expenses are limited to annual expenses that include items such as depreciation costs and amortization of costs.

Deferred costs upset the normal wisdom of utility ratemaking in that deferred expenses are incurred outside of the financial test year and, by definition, do not represent the most recent financial expenses of the utility. Deferrals, therefore, raise an issue of intergenerational equity in that consumers who are taking service immediately after a rate case will be paying higher rates for an expense the utility incurred years prior, when that customer was not on the utility system.

When a utility obtains approval to establish a regulatory asset (deferral), it has been generally understood that the utility would obtain the full proceeds of that regulatory asset and associated cost of capital whenever the utility next files a rate case. In doing so, the utility can choose when to seek recovery of that asset and end the compounding of money allowed on the regulatory asset.

In some cases, these regulatory assets can exist on a utility's books for years while still earning a rate of return.

By allowing recovery of operating expenses, the Commission should limit the operating expenses to only large and unexpected cost drivers that could not have been adequately mitigated by utilities. The basis for this recommendation is that allowing all operating expenses opens a Pandora's box permitting IOUs to seek to inflate unnecessarily the size of rate cases with unlimited deferred operating expenses. SCEUC does not believe the Commission should allow unrestrained recovery of operating expenses as deferrals.

In terms of a size limit on a deferral, SCEUC recognizes comments made by the ORS in this docket on September 6, 2019 where it cited the New York Public Service Commission and the North Carolina Utilities Commission for limiting deferrals to those that represent 5% or more of the utility's income. SCEUC agrees with such a size limit. As stated previously, matching revenues and expenses is a critical element of utility ratemaking. Any movement away from matching an expense to the financial test year in which the expense was incurred must meet some prerequisite limit.

SCEUC is sensitive to unexpected catastrophic costs such as storms. In such situations, the utility should be allowed to establish a regulatory assets but only after the utility has made a filing at the Commission demonstrating that the deferred expense is large, unexpected, will negatively impact the financial credit of the utility, and was unavoidable.

B. Capital Expense Deferrals Should Be Limited to Only a Return

The allowance of a capital expense to be booked as a regulatory asset should not pre-judge the prudence of the capital expense item. The Commission should defer the determination of the prudence of a regulatory asset until the utility files a rate case seeking full cost recovery. Doing so only ensures the Commission is allowed to do its due diligence. SCEUC agrees with the ORS recommendation in its September 6, 2019 filing that a utility should not be allowed to accrue

carrying costs on the deferral balance or accrue a deferred return associated with capital expenditures

C. Regulatory Assets Should Not Be Allowed to Exist Without a Termination Date

Large regulatory assets that exist on regulatory balance sheets represent financial risk to consumers. When a large regulatory asset is brought into rates in a rate case, the cost to consumers could be severe. As a result, these impending costs represent risk to consumers that should not be allowed to exist indefinitely. SCEUC maintains the Commission should establish timelines for utilities to “use it or lose it”. Doing so would prevent an unending risk to consumers while, at the same time, provide an incentive for a utility to properly recover regulatory assets in rates.

Alternatively, if the Commission believes that an absolute termination of a regulatory asset after a set period of time in certain cases is not justified, SCEUC recommends the Commission establish a pro-rata decrease in the regulatory asset over a period not-to-exceed five years.

SCEUC further suggests the Commission set the deferral time period to start on the date the expense was actually incurred. Doing so will provide an incentive for the utility to make a timely deferral filing.

D. Required Regulatory Filing

SCEUC maintains that the utility requesting the establishment of a regulatory asset should make a filing that includes a complete cost/benefit analysis demonstrating how the creation of a regulatory asset is beneficial to consumers. There is no doubt that a regulatory asset will improve the financial condition of the utility, but only a consumer-focused cost/benefit study will prove to the Commission whether the creation of a regulatory asset is beneficial to consumers and fair to both the utility and the consumer. The cost/benefit study should answer questions such as:

- Will the development of the regulatory asset delay a rate case filing? If so, by how long? And, who would benefit from a delay in a rate case filing?
- How will the utility’s financial condition be impacted if the regulatory asset request is denied?;

- Is it possible that the denial of a regulatory asset request will result in a credit downgrade for the utility? If so, what is the cost, in terms of future interest expenses, to the utility and its customers?

The Commission should set reasonable standards and processes such that all parties are aware of the requirements needed to be established such that a deferral becomes a regulatory asset. The process should be transparent so that the interest of all parties is taken into account by the Commission.

SCEUC thanks the Commission for this opportunity to reply to the comments submitted by the ORS on September 6, 2019 and to present the SCEUC's comments in regard to the issue of utility deferrals.



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Users Committee*

Columbia, South Carolina
October 30, 2019

CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the pleading(s) indicated below by mailing a copy of same to them via Electronic Mail on the date indicated below:

RE: Procedure to address Treatment of Deferrals (See Page Number 5 of Order No. 2019-341)

DOCKET NO.: 2019-233-A

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PLEADING:

COMMENTS

October 30, 2019


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